Globalisation's death has been exaggerated

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FINANCE

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This week, some cheering vaccine news emerged with the UK regulatory approval of a jab to protect against the virus. Not only are investors celebrating light at the end of the pandemic's economic tunnel, the development also gives a shot in the arm to that much maligned concept of "globalisation".

Covid-19 has shown us the perils of cross-border contagion. It has also fuelled xenophobia and protectionism. But the hunt for a vaccine has demonstrated that a globalised world has benefits too — namely cross-border scientific collaboration.

I would hazard a cautious bet that 2021 turns into a year when globalisation enjoys a rebound — in spite of all the recent signals to the contrary. To understand why, take a look at a set of metrics compiled each year by the logistics company DHL and New York University's Stern Business School.

The latest report, which was released on Thursday, shows that 2020 has indeed tipped globalisation into retreat — at least in the short run. Taking 2000 as a baseline of 100, the index hit 126 in 2017, 122 in the past two years and is provisionally projected to have slipped to somewhere in the range of 111 and 121 this year (sensibly, it is presented as a band in the report).

However, even with this reversal, the index is expected to stay above the low of 111 it hit in 2008 and the details of the report indicate it will almost certainly rebound next year. That might seem self-interested: DHL is a logistics company whose fortunes rely on globalisation.

But the reasons for optimism rest with a crucial point: there are several aspects to globalisation and these do not always move in step.

The DHL/NYU survey tracks the movement of four things: people, money, goods and ideas. In the first category, people, globalisation has collapsed this year to levels last seen in 1990. No surprise, given national lockdowns.

Money flows have also slowed, after trending sideways since the 2008 financial crisis. Trade flows have followed a similar pattern: while there was a sharp rise in cross-border trade in the late 20th century, as western companies created global supply chains, trade globalisation has trended slightly down in recent years, depressed by developments such as the US-China trade war. Unsurprisingly, it tumbled during the coronavirus economic shock this spring.

Dig into the trade picture, though, and the pattern looks more complex. Since the spring, activity has rebounded more dramatically than many economists initially expected. Indeed it is running just 3 to 4 per cent below pre-pandemic level and the World Trade Organization now thinks that total global trade volume will "only" drop 9.2 per cent in 2020. That is less dire than the 12.9 per cent decline it projected in April.

This rebound might fizzle out, since the WTO thinks it partly reflects restocking. Or maybe not. What is particularly striking is that companies are not reformatting and reshoring supply chains quite as some doomsayers expected.

There are certainly signs that top executives are worried about cross-border risks: a recent HSBC survey of 10,000 global companies shows that 93 per cent are worried about their supply chains, due to risks from political unrest and protectionism.

A separate report from McKinsey also shows that companies now expect a month-long disruption to hit their supply chains once — on average — every 3.7 years, be that from climate change, cyber attacks, political unrest or trade wars. The Covid-19 disruption, in other words, is not regarded as a one-off.

> The 'g' word has several aspects — people, money, goods and ideas — which do not always move in step

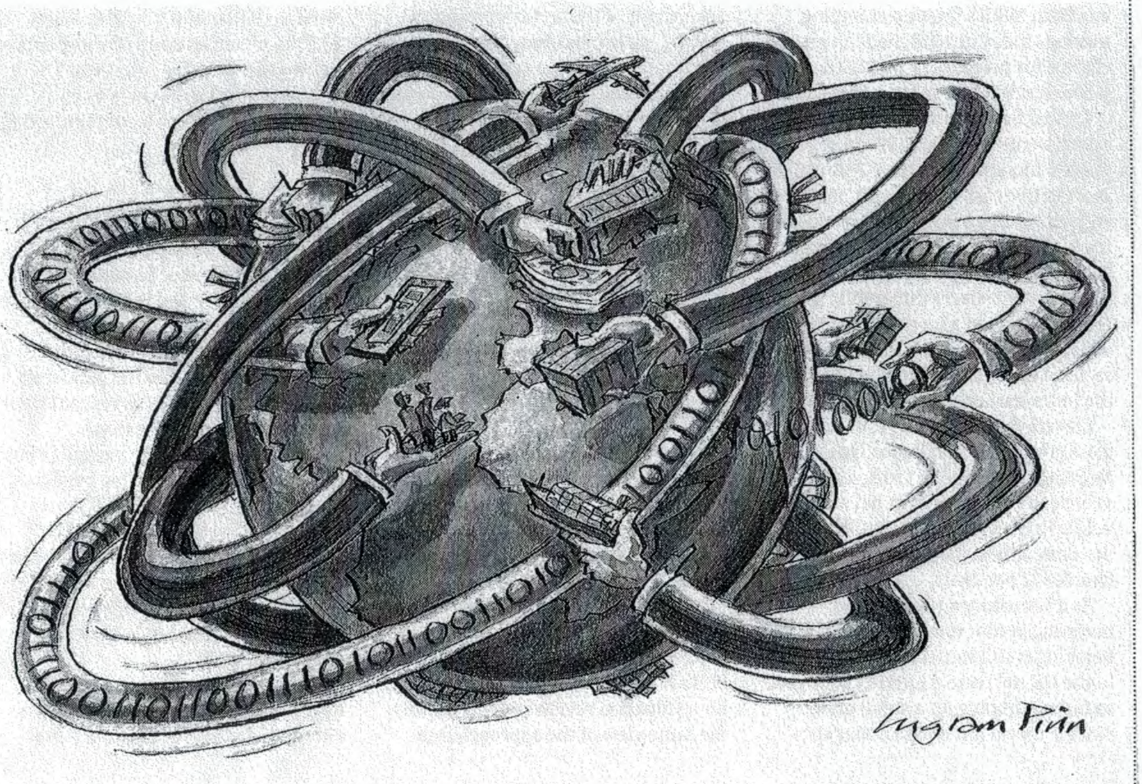
That has prompted some companies to bring some activities back "home" — as protectionist politicians such as US president Donald Trump have demanded. But most are doing something else: diversifying into multiple locations, instead of relying on just one supply chain. The McKinsey and HSBC reports suggest. Hedging is all the rage.

Even if supply chains are being reformatted into more flexible shapes, goods will still keep whizzing across borders. This helps to explain another detail of the HSBC survey: the executives expect trade to be strong in 2021.

The DHL/NYU survey also tracks a fourth aspect of globalisation (information flows). This metric has surged in recent years due to the internet, and the pandemic has intensified the dash to digital. Cross-border internet traffic jumped 48 per cent from mid-2019 to mid-2020, twice the annual rate seen in the previous three years.

In theory, this might undercut the need for physical links as video calls replace some travel. In reality, the globalisation of information fuels global ecommerce, making cross-border supply chains more flexible — and boosting collaboration in areas such as vaccine research. Protectionism remains a risk. China's curbs on the internet are a case in point. But even that seems unlikely to tip this fourth aspect of globalisation into overall retreat; at least not anytime soon.

So the next time a politician (or voter) rails against "globalisation", ask which aspect of the "g" word is under attack. After all, you are probably reading about anti-globalisation on the global internet, which illustrates my point. Covid-19 has caused globalisation to mutate, but not killed it off. Indeed, 2021 might yet deliver a surprising recovery.



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